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WORLD NEWS

OPEC Looks Set To Keep Output At Near Capacity

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With crude-oil prices trading well above $50, OPEC is widely expected to endorse continuing its high output levels for the second half of this year at a meeting in Vienna on Wednesday.

Sheikh Ahmad Fahad al-Ahmad al-Sabah, the Kuwaiti oil minister who is the cartel's president, is also trying to drum up support for his proposal to raise the group's official output ceiling by 500,000 barrels a day to 28 million barrels. That would largely be a symbolic step, however, because it would simply align the output quota with current production levels. Saudi Arabian Oil Minister Ali Naimi backed the proposal over the weekend.

The limited options on the cartel's agenda this week underscore how the Organization of Petroleum Exporting Countries is unable, at least for now, to fine-tune supply to force down world oil prices, even if it wanted to. High oil prices have been tugging down the global economic growth rate. But OPEC countries and other oil suppliers are already pumping so heavily that global stockpiles of crude are well above year-ago levels. Moreover, OPEC won't be able to produce much more oil until late this year, when additional pumping capacity comes online. Saudi Arabia, the world's largest exporter and OPEC's de facto leader, is the only member that can pump much extra oil immediately. But much of this Saudi crude is a high-sulfur variety that refiners don't need or want to buy at current prices.

The supply of crude isn't the only factor holding up fossil-fuel prices. Traders have been bidding up refined products, such as gasoline and diesel, for fear that supplies will grow tight later this year. Last week, traders were fretting about the havoc that hurricanes may cause in the Gulf of Mexico. Hurricane Ivan devastated the Gulf last year, severely reducing oil production and transport in this major U.S. oil region. Last week, Arlene, the first tropical storm of the season, forced precautionary evacuations from oil facilities, sending oil prices up.

After falling to almost $46 a barrel in mid-May, crude rebounded to nearly $55 a barrel recently. On Friday, U.S. light, sweet crude for July delivery settled at $53.54 a barrel, down 74 cents, after trading as high as $54.95 a barrel.

The big swings in energy prices have been roiling the world economy. Last week, Federal Reserve Board Chairman Alan Greenspan told a congressional committee, "The alternating bouts of rising and falling oil prices have doubtless been a significant contributor to the period of deceleration and acceleration of U.S. economic activity over the past year." Partly due to the oil-price surge, world and U.S. economic growth rates have slowed from last year.

OPEC, meanwhile, is already producing about all the oil it can. With output at some 30 million barrels a day, all of OPEC's members except Saudi Arabia have been producing at maximum rates since March. And Saudi Arabia has for months repeatedly said it is willing to produce up to its limit if buyers want more oil.

OPEC opened its taps this spring because Saudi Arabia and some others in OPEC feared that an expected seasonal surge in demand later this year could exceed global production capacity. So they encouraged consumers to stock up, and industry inventories have since risen markedly, particularly in the U.S. The inventory increases have caused unease in some OPEC circles, including Iran, the cartel's second-largest producer after Saudi Arabia. These OPEC officials are concerned that large inventories could weigh heavily on prices if demand for oil weakens because of a slowdown in world economic growth. Even Saudi Arabia, which was at the forefront of pushing for greater supply in March, has discouraged buying of its oil by raising prices this month.

Jan Stuart, an analyst at New York-based brokerage house Fimat USA LLC, a unit of Société Générale Group, says it is too soon, in any case, for OPEC to put more oil on the market now. "Even if they raise the ceiling, or raise production, they will make clear it is for delivery in August or September," when demand will be picking up ahead of winter in the Northern Hemisphere.

According to the latest forecast published by the Paris-based International Energy Agency, world demand for oil is about 82.5 million barrels a day in the current quarter. It is expected to rise to 84 million barrels a day in the third quarter, and to 86.4 million barrels a day in the fourth quarter this year. The IEA expects that capacity additions scheduled to come online later this year will be large enough to meet the increase in global demand. OPEC last raised its output ceiling by 500,000 barrels a day to 27.5 million barrels a day, excluding Iraq, at a meeting in Iran in March.

Additionally, Iraq's sanctions and war-ravaged oil industry has been producing about 1.75 million barrels a day, but its output has been slipping in recent months. Iraq isn't bound by OPEC's quotas, which apply to the cartel's other 10 members.

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